

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF GHK)
SEWERAGE COMPANY FOR) CASE NO. 8725
AN ADJUSTMENT OF RATES)

O R D E R

On November 2, 1982, GHK Sewerage Company ("GHK") filed its application with this Commission to increase its rate pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The proposed rate would produce additional revenue of \$4,909 annually, an increase of 9.4 percent. GHK also has requested a monthly surcharge of \$1.03 for a period of 1 year to recover the costs associated with a major breakdown at its treatment plant. The requested surcharge in addition to the requested increase would produce additional revenue of \$10,181 annually, an increase of 19.4 percent. Based on the determination herein the revenues of GHK will increase by \$5,224 annually, an increase of 9.95 percent.

A hearing was not requested in this matter and in accordance with the provisions of the ARF, no hearing was held. Therefore, the decision of the Commission is based on information contained in the application, written submissions, annual reports and other documents on file in the Commission's offices.

COMMENTARY

GHK is a privately-owned sewage treatment system organized and existing under the laws of the Commonwealth of Kentucky, and serving approximately 427 customers in Jefferson County.

TEST PERIOD

The Commission has adopted the 12-month period ending December 31, 1981, as the test period for determining the reasonableness of the proposed rate. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

REVENUES AND EXPENSES

The ARF was established to provide a simplified and less expensive method for small utilities to use in applying for rate increases with the Commission. Therefore, the financial data from the 1981 Annual Report is used as the basis for determining the revenue requirements. GHK proposed several adjustments to its test period revenues and expenses. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with certain modifications. In addition, the Commission has made several adjustments to GHK's test period operating statement to reflect actual and anticipated operating conditions.

Requested Surcharge

During the test year, GHK incurred \$5,272 in expenses associated with a major breakdown and repair of the micro-strainer in its treatment plant. GHK believes that it is

entitled to recover this extraordinary cost through increased rates and requested that the Commission allow a temporary surcharge of \$1.03 per customer per month for a period of 1 year to provide this recovery.

In order to determine the rate for a sewer utility, the Commission must establish a reasonable level of operating expenses as a basis for the revenue requirements of the utility. This requires adjustments to the actual historical test period to exclude any extraordinary or non-recurring expenses as well as pro forma adjustments to reflect known and measurable increases or decreases in operating expenses. This Commission generally amortizes extraordinary expenses over a reasonable period of time, when the benefit is realized over an extended period of time and the cost has not been recovered previously through rates.

The cost of the repair of the microstrainer is clearly extraordinary. Moreover, GHK's operating statement reflects a substantial loss for the period in which this cost was incurred. Therefore, the Commission is of the opinion that GHK is entitled to recover this cost and that it should be amortized over a 3-year period for rate-making purposes.

No evidence was presented in this case that reflects when this major repair might reoccur. However, based on testimony in other cases and experience with other sewer utilities with similar extraordinary costs the Commission is of the opinion that 3 years is the appropriate time over which this cost should be amortized.

Management Fee

GHK's operating expenses for the test period include a \$3,000 management fee, consisting of \$1,800 to Mr. J. S. Henderson, president of GHK, for management services, and \$1,200 to Mr. George Keat, secretary-treasurer of GHK, for management as well as engineering services. The Commission has reviewed the duties and responsibilities of Mr. Henderson and Mr. Keat and finds that they are similar to the duties performed by one owner/operator of similarly sized utilities. The Commission finds the payment of management fees to two officers to be an excessive cost. Therefore, the Commission has allowed the larger fee of \$1,800 in this case. An adjustment has been made to reduce the test year expense by \$1,200 to reflect the exclusion of the cost of the additional management.

Travel Expense

Mr. Henderson currently resides in Florida and travels to Louisville to conduct company business. GHK reports \$600 of expenses related to Mr. Henderson's travel for 1981. In his absence Mr. Keat provides management services as well as routine engineering services. The Commission is of the opinion that the cost of transportation for Mr. Henderson from Florida is not essential to the safe, reliable operation of the sewer utility, is incurred at the owner's option and is an unreasonable cost to be borne by the ratepayers. Therefore, the Commission has eliminated the travel expense of \$600 for rate-making purposes herein.

Water Service Expense

GHK incurred test period water service expense of \$1,631. In order to assess the accuracy of the reported level of expense, as well as to determine the adjusted water service expense, the Commission requested and GHK has supplied copies of its test period water bills from the Louisville Water Company. In determining the pro forma water service expense, the Commission has applied the current rates to the actual gallons used by GHK during the test year. This results in an adjusted water service expense of \$1,788.

Chemical Expense

GHK proposed an adjustment to increase its chemicals expense by \$371 to \$1,370, a 37 percent increase. GHK based its adjustment on an average chemical usage of 18 150-pound cylinders of chlorine at a price of \$43.50 per 100 pounds and 1 100-pound drum of HTH at a price of \$129.25 per drum. The Commission has examined the invoice used by GHK to determine the price of chemicals in its application and an analysis of the chemical expense account provided by GHK in response to item 9 of the Commission's request of January 13, 1983. The purchase invoice and the analysis reflect a price for chlorine of \$43.50 per 150-pound cylinder not \$43.50 per 100 pounds used by GHK in its adjustment. Therefore, the Commission has determined GHK's adjusted chemical expense by applying the prices on the purchase invoice and the chemical account analysis provided by GHK to the average annual chemical usage. This results in an adjusted chemical expense of \$1,008.

Electric Expense

GHK proposed an adjustment to increase its electric expense by \$5,817 to \$21,502. In support of its adjustment GHK stated that while investigating an increase in KWH usage it discovered that Louisville Gas and Electric Company ("LG&E"), its electric power supplier, had changed GHK's meter in August of the test period. The KWH usage for the 12 monthly electric bills subsequent to the change show a marked increase over the usage during the 12 months preceding the change. The Commission, in an effort to calculate a fair electric expense adjustment for GHK, required GHK to file information containing the rated KWH usage of its pumps and their appropriate run times. Using this information the Commission has determined GHK's appropriate KWH usage per month. The Commission's findings show that the estimated average KWH usage per month is very near the actual average monthly KWH usage for the 12-month period subsequent to the change in meters. In determining the pro forma electric expense, the Commission has applied the current rates of its electric supplier to the actual KWH used by GHK for the 12 months subsequent to the meter change. This results in adjusted electric expense of \$22,040.

Collection Fees

GHK projected expenses of \$2,588 related to the collection of its bi-monthly sewer bill by the Louisville Water Company. The adjustment was based on the proposed rate plus the surcharge as a percentage of the total sewer and water bill multiplied by the collection charge per bill. The Commission

has computed GHK's pro forma collection expense based upon the rate allowed herein. This results in collection expense of \$2,302.

The Commission finds that GHK's adjusted test period operations are as follows:

	<u>Actual Test Period</u>	<u>Pro forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenue	\$ 52,477	\$ -0-	\$ 52,477
Operating Expense	<u>62,105</u>	<u>(11,328)</u>	<u>50,777</u>
Net Income	<u>\$ (9,628)</u>	<u>\$ 11,328</u>	<u>\$ 1,700</u>

REVENUE REQUIREMENTS

The Commission is of the opinion that the operating ratio¹ is a fair, just and reasonable method for determining revenue requirements in this case. The Commission finds that an operating ratio of 88 percent will allow GHK to pay its operating expenses and provide a reasonable return to its owners. Therefore, the Commission finds that GHK is entitled to increase its rates to produce total annual revenue of \$57,701 which will require an increase of \$5,224 annually.

RATE DESIGN

GHK proposed to change the non-residential rate from 2 times the single family residential rate to the same as the

¹ Operating Ratio = $\frac{\text{Operating Expenses} + \text{Taxes}}{\text{Gross Revenue}}$

single family residential rate. However, GHK submitted no evidence to support the change in rate design, and the Commission does not find the change to be in the interest of GHK's customers.

RESPONSE TO REQUEST FOR INFORMATION

In this proceeding, GHK secured the services of Mr. David B. Hicks, CPA, to assist in the preparation of the rate case and responses to the Commission's information requests. On March 1, 1983, in a response to the Commission's final request for information, Mr. Hicks took issue with the request and referred to the Commission's Order as "threatening." The information requested in that Order had been requested on two occasions and each time Mr. Hicks' response was that the information would be filed at an unspecified later date.

As stated earlier in this Order, the ARF was instituted to provide a simpler and less expensive and time-consuming process whereby small utilities could obtain rate relief. Although the ARF reduces the minimum filing requirements and eliminates the hearing in most cases, a greater burden is placed on the Commission, which must develop a record to support its decision and afford due process to the utility. In most instances the information requested by the Commission consists of analyses of actual test period costs, invoices for these costs, information relating to pro forma adjustments and other detailed information which should be readily available in the files of the utility and should not require the assistance of outside professionals. Moreover, the Commission considers it to be imprudent for

utility management to hire consultants and other professionals when in-house employees or officials of the utility could be used.

The Commission is aware that in some instances the assistance of professionals may be necessary to respond to requests of the Commission in ARF proceedings. In those instances the Commission expects utilities to secure the services of professionals who are familiar with Commission requirements and utility operations to assure that the maximum benefit is derived. The responsibility for compliance with Commission orders is with the utility which must monitor the professionals it chooses to assist it.

SUMMARY

The Commission, after consideration of the evidence of record, finds that:

(1) The rates in Appendix A will produce gross annual operating revenue of \$57,701 and are the fair, just and reasonable rates to be charged in that they will allow GHK to pay its operating expenses and provide a reasonable surplus for equity growth.

(2) The surcharge proposed by GHK should be denied.

(3) The rate proposed by GHK should be denied.

IT IS THEREFORE ORDERED that the proposed request for a surcharge be and it hereby is denied.

IT IS FURTHER ORDERED that the rates proposed by GHK be and they hereby are denied.

IT IS FURTHER ORDERED that the rates in Appendix A be and they hereby are approved for service rendered by GHK on and after the date of this Order.

IT IS FURTHER ORDERED that within 30 days of the date of this Order GHK shall file its revised tariff sheets setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 14th day of April, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8725 DATED April 14,
1983.

The following rates are prescribed for customers served by GHK Sewerage Company. All other rates not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

<u>Customer Class</u>	<u>Monthly Rate</u>
Residential	
Single Family	\$11.25
Multi-Family	
3-bedroom	11.25
2-bedroom	8.44
1-bedroom	5.63
Non-Residential	22.50